



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, June 28, 2013  
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:32 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Tom Manos, Chair  
Mr. Mike Smarik, Vice-chair  
Mr. Tom Connelly  
Professor Dennis Hoffman (via Teleconference)  
Dr. Richard Jacob  
Mr. Kevin McCarthy  
Mr. Brian McNeil  
Mr. Jeff Tyne

One vacant position.

A quorum was present for the purpose of conducting business.

### **2. Approval of the Minutes of the May 22, 2013 and May 24, 2013 Public Meetings and the May 22, 2013 and May 24, 2013 Executive Sessions of the ASRS Board**

**Motion:** Mr. McCarthy moved to approve the minutes of the May 22, 2013 and May 24, 2013 Public Meetings and the May 22, 2013 and May 24, 2013 Executive Sessions of the ASRS Board. Mr. Tyne seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 0 excused, and 1 vacancy, the motion was approved.

### **3. Presentation, Discussion and Appropriate Action Regarding the 2013 Legislative Session**

Ms. Lesli Sorensen, Government Relations Officer, reviewed the 2013 legislative session outcomes; the bills that affect the ASRS and other legislation of interest. Mr. Kevin McCarthy commended Ms. Sorensen on her hard work throughout the legislative session.

#### **4. Presentation and Discussion Regarding the Strategic Topic of Governance Theory, Governance Practices, the ASRS Governance Model and Evolution, Decision-Making, and the Role of the Board and Staff**

Director, Paul Matson addressed the Board by outlining the agenda item and providing the ASRS' philosophy regarding the importance of governance and summarizing the roles and responsibilities of the Board, the Director and staff. Mr. Matson then reviewed the history of the ASRS Board and governance, noting the Board approved its first version of the Board Governance Policy Handbook in January, 2004.

Mr. Matson introduced Mr. Tom Iannucci of Cortex Applied Research Inc., as the moderator of the governance discussion. Mr. Iannucci discussed governance issues, best practices in public pension fund governance, and the governance of the ASRS. Mr. Iannucci stated the two standard objectives of a board are loyalty and prudence and discussed how to achieve those objectives. Mr. Iannucci also stated that an additional objective that is often implicit but should be explicit is that of achieving results.

Mr. Iannucci stated that based upon his review of the ASRS, the ASRS has a very strong governance structure and scores well with governance and best practices when compared with their peers.

Agenda items numbers 8, 9, and 19 were taken out of order and addressed prior to discussing agenda item number 5.

Professor Dennis Hoffman departed the meeting at 10:08 a.m.; after agenda items number 8 and 9 were discussed.

#### **5. Presentation and Discussion Regarding the Strategic Topic of the Funding Paradigm and Policies for the Pension, Health Insurance, and Long Term Disability Programs**

Mr. Paul Matson, Director, outlined the current actuarial assumptions and methodologies used to complete the annual valuation of the Pension, Health Insurance, and Long Term Disability plans, respectively. In particular, Mr. Matson focused on the following:

- Size of the program (market and actuarial value)
- Estimated statuses (contribution rate and funded status)
- Methods for funding including the levers influencing funded status and contribution rates
- Historic and projected funded statuses for the programs
- Historic and projected contribution rates for the programs

Mr. Matson provided detailed insight into the funding considerations for the Pension, Health Insurance, and LTD programs, indicating that the goal is to be at an average of 100% through time although deviations through time always occur. Smoothing investment gains and losses enables contribution rate volatility to be significantly reduced, enhanced inter-generational equity, and a constant trajectory towards full funding.

Mr. Matson noted that changing the amortization schedule for the pension plan beginning the upcoming fiscal year will be an area the Board will be asked to opine on in the future.

Mr. Brian McNeal departed the meeting at 11:35 a.m., prior to agenda item 6.

**6. Presentation and Discussion Regarding the Strategic Topics of:**

**a. Long-Term Rate-of-Return Expectation**

Separately, Mr. Tim McCusker, Partner, NEPC and Mr. Steve McCourt, Managing Principal, Meketa and Mr. Dave Underwood, Assistant Chief Investment Officer, ASRS presented and discussed data concerning perspectives on the 8% long-term rate of return (ROR) assumption for pension plans. All three parties affirmed their support of the 8% ROR with substantive details related to historic and peer universal actuarial assumption rates, ASRS investment portfolios, financial markets, as well as strategic and tactical portfolio positioning.

**b. GASB Statements 67 and 68**

Ms. Nancy Bennett, ASRS Chief Financial Officer, presented the Board with the changes to the Governmental Accounting Standards Board (GASB) methodology for financial accounting standards and how the changes affect the employers, members and the ASRS.

**c. Moody's Pension Liability Measurement Methodology**

Ms. Bennett presented the Board with Moody's new approach to analyzing state and local government pensions and discussed how those changes affect the employers, members and the ASRS.

**7. Presentation and Discussion Regarding the Strategic Topic of ASRS Investment Beliefs, Asset Allocation, Investment Strategies, and Investment Initiatives**

Mr. Matson provided an outline and purpose for the discussion. Mr. Matson discussed the ASRS Investment Beliefs and walked through the interpretation of the ten themes within the document, noting the simplification measures taken as well as additional concepts that add clarity to the document. Mr. Matson discussed the applicability of the beliefs and how they relate to the investment portfolios overseen by the Trustees.

Mr. Gary Dokes, Chief Investment Officer, ASRS, presented the asset allocation, the investment strategies and how that structures our portfolios, as well as the current investment related research and other initiatives.

**8. Presentation, Discussion and Appropriate Action Regarding the Biennial Audit Plan for 2014/2015**

Mr. Bernard Glick, Chief Internal Auditor, reviewed the Biennial Audit Plan for 2014/15. Mr. Glick explained the document as well as the process of creating the document.

**Motion:** Mr. Jeff Tyne moved to approve the ASRS Internal Audit Division Biennial Audit Plan for FY 2014 and 2015. Mr. Kevin McCarthy seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 0 excused, and 1 vacancy, the motion was approved.

## **9. Presentation, Discussion and Appropriate Action Regarding ASRS Board Elections**

The ASRS Board Governance Policy Handbook states that nominations for Board Chair and Vice-chair will be made at the regular meetings of the Board. The newly elected Board officers will be elected by majority vote and will start their term at the start of the fiscal year.

**Motion:** Mr. Kevin McCarthy moved to re-elect Mr. Tom Manos as Chair of the ASRS Board of Trustees. Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 0 excused, and 1 vacancy, the motion was approved.

**Motion:** Mr. Kevin McCarthy moved to re-elect Mr. Mike Smarik as Vice-chair of the ASRS Board of Trustees. Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 0 excused, and 1 vacancy, the motion was approved.

Mr. Tom Manos and Mr. Mike Smarik will serve as Chair and Vice-chair respectively until June 30, 2014.

## **10. Presentation, Discussion and Appropriate Action Regarding ASRS Investment Program Updates**

Mr. Dokes did not have any additional information to convey to the Board for the Investment Updates Report aside from what was mentioned in agenda item 7 and what was contained within the packet. There was no discussion.

## **11. Presentation, Discussion and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program – Includes Total Fund Q1-13**

Mr. Allan Martin, Consultant, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through March 2013.

The Total Fund Performance for the period ending March 31, 2013 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	6.0%	10.8%	10.1%	5.7%	8.7%	9.9%
Interim SAA Policy	5.2%	10.8%	9.8%	5.2%	8.2%	9.7%
Excess Return	0.8%	0.0%	0.3%	0.5%	0.5%	0.2%

**\*\*Interim SAA Policy:** 26% S&P 500/5% S&P 400/5% S&P 600/14% MSCI EAFE/3% MSCI EAFE Small Cap/6% MSCI Emerging Markets/5% Russell 2000 (lagged one quarter)/16% Barclays Capital Aggregate/5% Barclays Capital High Yield/4% JP Morgan GBI-EM Global Diversified/1% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/6% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index

**12. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Matson did not have any additional information to convey to the Board for the Director's report, aside from what was included within the packet. There was no discussion.

**13. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations and Audit Committee Meetings**

Mr. Jeff Tyne, Operations and Audit Committee (OAC) Chair, said risk management and assessment will be discussed at the upcoming OAC meeting on July 30, 2013.

**14. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming External Affairs Committee Meetings**

Mr. Kevin McCarthy, External Affairs Committee (EAC) Chair, noted the next EAC Meeting will be held in September, 2013. Prior to the September meeting, Ms. Sorensen will be meeting with staff, Trustees, and constituents to discuss possible legislation for the upcoming session.

**15. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings**

Mr. Tom Connelly, Investment Committee (IC) Chair, noted the next IC meeting will be held on August 19, 2013, with discussions on investment roundtable topics and a review of the fiscal year performance.

**16. Board Requests for Agenda Items**

No requests were made during the meeting. Mr. Manos encouraged Board members to email any subsequent Board Requests or Agenda Items directly to himself and Mr. Matson.

**17. Call to the Public**

No members of the public requested to speak.

**18. The next ASRS Board meeting is scheduled for Friday, August 23, 2013, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**19. Presentation, Discussion and Appropriate Action with Respect to the 2012 Review of the Director of the ASRS**

**Motion:** Mr. Jeff Tyne moved to go into Executive Session for the purpose of the Review of the ASRS Director. Mr. Kevin McCarthy seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

The Board adjourned at 10:06 a.m. for the purpose of going into Executive Session.

The Board reconvened from Executive Session to the full Board meeting at 10:45 a.m.

**Motion:** Mr. Connelly moved to approve the Employment Agreement dated June 28, 2013 between Director, Mr. Paul Matson, and the Chair, Mr. Tom Manos, as modified. Mr. Kevin McCarthy seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 1 excused, and 1 vacancy, the motion was approved.

## **20. Adjournment of the ASRS Board**

Mr. Tom Manos adjourned the June 28, 2013 Board meeting at 1:41 P.M.

## **ARIZONA STATE RETIREMENT SYSTEM**

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Chasity Byrd and Gayle Williams      Date  
Board Secretaries

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Paul Matson      Date  
Director